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Message Text

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ACTION ARA-10

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TO SECSTATE WASHDC PRIORITY 4063
INFO AMEMBASSY BRASILIA
AMEMBASSY BRIDGETOWN
AMEMBASSY CARACAS
AMEMBASSY KINGSTON
AMEMBASSY PARAMARIBO
AMEMBASSY PORT OF SPAIN
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C O N F I D E N T I A L SECTION 1 OF 2 GEORGETOWN 0141

DEPARTMENT PASS AID LA/CAR

E.O. 11652: GDS
TAGS: ECON, GY
SUBJECT: GUYANA -- ECONOMIC ANALYSIS

REF: GEORGETOWN 0100

INTRODUCTION: ASK ANYONE WHAT THE BASIS OF THE ECONOMIC STRUCTURE IS IN GUYANA AND I'M QUITE SURE THE REPLY WILL BE SUGAR, BAUXITE AND RICE. THESE THREE COMMODITIES ACCOUNT FOR 38 PERCENT OF GUYANA'S GROSS DOMESTIC PRODUCT AND NEARLY 87 PERCENT OF GUYANA' EXPORT EARNINGS. THUS, IT WOULD BE EASY TO ORIENT ANY ECONOMIC ANALYSIS OF CURRENT AND FUTURE ECONOMIC TRENDS SOLELY IN TERMS OF SUGAR, BAUXITE AND RICE. BUT AS IN ANY ECONOMY, GUYANA IS MUCH MORE COMPLEX. IN ORDER TO UNDERSTAND THE ECONOMIC SITUATION, IT IS
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NECESSARY TO EXTEND BEYOND THE EFFECTS OF "BAD WEATHER" AND PERIODIC INDUSTRIAL STRIFE. GOVERNMENT EXPANSION, PRIVATE INDUSTRY CONTRACTION, AND CONSUMER "RECONDITIONING" ARE ALSO SIGNIFICANT ELEMENTS. END INTRODUCTION.

1. THE BIG THREE: ALTHOUGH SUGAR PRODUCTION INCREASED QUANTITATIVELY IN 1976, THE VALUE OF SUGAR EXPORTS DECLINED.

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IN ADDITION, HEAVY RAIN IN THE FIRST HALF OF THE YEAR CONTRIBUTED TO TOTAL 1976 PRODUCTION DECREASES IN BOTH RICE AND BAUXITE. CONSEQUENTLY, THE TOTAL VALUE OF 1976 EXPORTS (G$730 MILLION) DECLINED APPROXIMATELY G$100 MILLION OVER 1975.

1A. SUGAR. FOR 1977, THE VALUE OF SUGAR EXPORTS IS EXPECTED TO REMAIN FAIRLY STAGNANT. LIMITING FACTORS INCLUDE NOT ONLY WORLD COMMODITY PRICES AND THE WEATHER, BUT ALSO INDUSTRIAL STRIFE. WORLD SUGAR PRICES ARE EXPECTED TO REMAIN DEPRESSED IN 1977. THE EFFECT THE CURRENT DRY SPELL WILL HAVE ON THE SUCROSE CONTENT OF THE 1977 SPRING SUGAR CANE HARVEST IS STILL UNKNOWN. GOG POLICIES DECREASING GOVERNMENT SUBSIDIES ON FLOUR, STOCK FEED, ELECTRICITY AND TRANSPORTATION WILL MEAN HIGHER PRICES FOR EVERYONE, BUT THE EAST INDIAN SUGAR WORKERS FEEL PARTICULARLY AFFECTED. WITH WAGES ALREADY LIMITING, THE INDUSTRIAL STRIFE EVIDENT IN THE SUGAR INDUSTRY IN 1976 WILL UNFORTUNATELY PROBABLY CARRY OVER INTO THE NEW YEAR.

1B. BAUXITE. FAVORABLE BAUXITE PRICES IN 1976 COMPENSATED FOR QUANTITATIVE PRODUCTION DECREASES, THUS RESULTING IN A SLIGHT INCREASE IN THE VALUE OF 1976 BAUXITE EXPORTS. SINCE THE GOG EXPECTS BAUXITE PRODUCTION TO EXPAND IN 1977 WHILE WORLD BAUXITE PRICES, PARTICULARLY CALCINE PRICES, REMAIN FAVORABLE, THE BUDGET PROJECTS A 36.5 PERCENT INCREASE IN THE VALUE OF 1977 BAUXITE EXPORTS. ADMITTEDLY, 1976 WAS A BAD YEAR FOR THE BAUXITE INDUSTRY. BUT, THE ADDITION OF A NEW DRAGLINE AND A NEW KILN THIS PAST YEAR SHOULD RESULT IN REAL PRODUCTION INCREASES. SEVERAL LIMITING FACTORS SHOULD BE MENTIONED, HOWEVER. THE EMI-
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GRATION OF EXPERIENCED TOP AND MID-LEVEL BAUXITE INDUSTRY MANAGERS AND TECHNICIANS HAS, NO DOUBT, ADVERSELY AFFECTED THE INDUSTRY. ALSO, RUMORS PERSIST OF TRANSPORTATION SNAGS (I.E. POOR TRUCKS PURCHASED FRON THE GDR) AND ELECTRICITY SHORTAGES (THUS AFFECTING THE NEWLY EXPANDED DRAGLINE AND ALUMINA PLANT OPERATIONS). ALLEGED ELECTRICITY SHORTAGES WILL NOT BE FULLY RECTIFIED IN 1977 IF THE GOG DECREASES ASSISTANCE TO THE GUYANA ELECTRICITY CORPORATION AS PLANNED. PERHAPS MORE IMPORTANT, HOWEVER, ASSUMED STABLE INDUSTRIAL RELATIONS IN THIS INDUSTRY ARE NO LONGER ASSURED. THE TEAR GASING AND JAILING OF A CONTINGENT OF LINDEN BAUXITE WORKERS IN DECEMBER 1976, EVEN THOUGH THE STRIKE ENDED RECENTLY, WILL CARRY A SIGNIFICANT AMOUNT OF WORKERS' ANIMOSITY INTO 1977.

1C. RICE. HEAVY RAINS AND INADEQUATE DRAINAGE CONTRIBUTED TO A SUBSTANTIAL REDUCTION IN THE 1976 RICE CROP. (1976 RICE PRODUCTION TOTALED 110,000 TONS.) FOR 1977, THE GOG ANTICIPATES PLANTING 150,000 ACRES OF PADDI AND HARVESTING NEARLY 200,000 TONS OF RICE. HOWEVER, INSUFFICIENT EXPENDITURES IN PREVIOUS YEARS ON EQUIPMENT AND DRAINAGE AND

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IRRIGATION AS WELL AS THE USE OF MARGINALLY PRODUCTIVE LAND
(TO EXPAND THE ACREAGE PLANTED) MAKES THIS GOG PROGRAM
APPEAR SLIGHTLY OPTIMISTIC.

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2. GOVERNMENT. 1976 GOG EXPENDITURES TOTALED G$795
MILLION, OF WHICH G$323 MILLION WAS SPENT IN THE CAPITAL
SECTOR. ALTHOUGH EXPENDITURES IN THE FORM OF LOANS FOR
ELECTRICITY, PORK, AND RICE WERE CONSIDERABLE, GENERALLY
SPEAKING, DIRECT 1976 GOG EXPENDITURES ON RURAL INFRA-
STRUCTURES AND AGRICULTURAL AND INDUSTRIAL DEVELOPMENT
PROJECTS SUFFERED IN RELATION TO INCREASED SPENDING ON
DEFENSE, SELECT ROAD PROJECTS (GEORGETOWN ACCESS AND THE
UPPER MAZARUNI ROADS), NATIONALIZATION PAYMENTS, THE CANJE
BRIDGE AND THE UPPER MAZARUNI DEVELOPMENT PROJECT. DURING
1976, FOREIGN RESERVES WERE DEPLETED AND PUBLIC DEBT IN-
CREASED. BY THE END OF 1976, THE ESTIMATED PUBLIC DEBT WAS
EXPECTED TO TOTAL G$879 MILLION, OF WHICH G$652 MILLION WAS
DERIVED FROM EXTERNAL BORROWINGS AND G$226 MILLION FROM
INTERNAL LOANS. THUS, FROM THE DEFICIT OF 1976 EMERGED
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THE "AUSTERITY" BUDGET OF 1977. AGAIN CAPITAL WORKS APPEARS NOT TO BE GETTING ITS FAIR SHARE. MOST OF THE 1977 CUTBACKS ACTUALLY OCCUR (SEE REFTEL) IN DECREASED CAPITAL EXPENDITURES FOR AGRICULTURE, WORKS, ECONOMIC DEVELOPMENT AND ENERGY AND NATURAL RESOURCES. DESPITE THESE CUTBACKS, THE PUBLIC DEBT IS EXPECTED TO INCREASE IN 1977 (TO A TOTAL OF G$916 MILLION) AS BORROWINGS INCREASE FROM "FRIENDLY COUNTRIES," DOMESTIC SOURCES AND THE EURO-MONEY MARKET. IN EFFECT WHAT IS OCCURRING IS THE NOT SO GRADUAL SUBJUGATION OF ECONOMIC POLICY TO POLITICAL DECISIONS. LIKEWISE, POLITICAL RATIONALE HAS REPLACED OBJECTIVE ECONOMIC TESTS. EXTERNAL DISECONOMIES HAVE BECOME CONVENIENT EXCUSES FOR INCOHERENT ECONOMIC POLICIES, UNECONOMICAL PRIORITIES, AND POOR INVESTMENT DECISIONS.

3. PRIVATE SECTOR. THE DECREASING PRIVATE SECTOR WILL CONTRACT EVEN FURTHER IN 1977. WITH THE ACQUISITION OF THE GIANT BOOKERS MCCONNEL LTD. AND BERGER PAINTS IN 1976, GOG HOLDINGS INCREASED TO CONTROL OVER 80 PERCENT OF THE ECONOMY. IN 1977, PRIVATE INDUSTRY CAN BE EXPECTED TO REDUCE EVVF FURTHER ITS SHARE OF THE ECONOMY. THE GOG HAS RECENTLY ANNOUNCED THAT "BASIC COMMODITIES" WILL BE IMPORTED SOLELY BY PUBLIC CORPORATIONS AND DISTRIBUTED BY LICENSED, GOVERNMENT APPOINTED AGENTS. IN SOME CASES, HOWEVER, RETAILING WOULD REMAIN IN PRIVATE HANDS. IN ADDITION TO INCREASED GOG CONTROL, PRIVATE FIRMS WILL ALSO BE FACING INCREASING COSTS IN 1977. IN ITS "AUSTERITY" BUDGET FOR THE COMING YEAR, THE GOG HAS DECREASED DIRECT GOVERNMENT SUBSIDIES ON STOCKFEED, ELECTRICITY, AND FLOUR. WHILE SOME OF THESE COST INCREASES WILL BE PASSED ON TO THE CONSUMER THROUGH INCREASED PRICES, GOG PRICE CONTROLS WILL FORCE MANY FIRMS TO ABSORB A PART OF THESE COST INCREASES.

4. CONSUMER SECTOR. IN 1976, THE GOG'S POLICY TO "FEED, CLOTHE, AND HOUSE OURSELVES" LEFT THE MAN-ON-THE-STREET

WITH A MORE LIMITED CHOICE OF CONSUMER GOODS. FOR 1977, NOT ONLY WILL THE AVAILABILITY OF SOME CONSUMER GOODS BE RESTRICTED EVEN FURTHER, BUT DOMESTIC PRICES WILL INCREASE. THE GOG HAS ANNOUNCED A G$100 MILLION CUTBACK IN PROPOSED IMPORT EXPENDITURES. (TOTAL 1977 IMPORTS ARE EXPECTED TO TOTAL SOME G$1. BILLION.) IN ADDITION THE GOG'S DECISION TO REDUCE DIRECT SUBSIDIES ON TRANSPORTATION, STOCKFEED, FLOUR AND ELECTRICITY WILL MEAN PRICE INCREASES

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ON A WIDE RANGE OF BASIC COMMODITIES. WAGES, ON THE OTHER HAND, ARE NOT EXPECTED TO INCREASE SUBSTANTIALLY. (A RECENT STRIKE AT LINDEN, WHERE WORKERS WERE APPARENTLY UNSATISFIED WITH A UNION NEGOTIATED SIX PERCENT PAY RAISE, ENDED WITH NO FURTHER WAGE INCREASE.) CONSUMER SPENDINGS WILL FURTHER BE RESTRICTED IF THE GOG IS SUCCESSFUL IN ITS ATTEMPT TO GET WAGE EARNERS TO INVEST A PORTION OF THEIR ANNUAL EARNINGS IN GOG DEFENSE BONDS. (THE GOG HOPES TO RAISE G$30 MILLION IN DEFENSE BOND SALES IN 1977.) THE GOG ALSO HOPES TO FLOAT LOCALLY AN ADDITIONAL G$30 MILLION IN DEBENTURES. ON THE RECEIVING END, ATTEMPTS ARE BEING MADE TO UPGRADE HOUSING, TRANSPORTATION, EDUCATION AND HEALTH CARE. TOO OFTEN, HOWEVER, PROPOSED EXPENDITURES ON " PEOPLE" ORIENTED PROJECTS ARE DIVERTED TO "MORE IMPORTANT" PRO-JECTS (DEFENSE, PUBLIC WORKS, ETC.). IN ALL, THE CONSUMER WILL PROBABLY SEE LITTLE IMPROVEMENT IN HIS STANDARD OF LIVING IN 1977.

5. COMMENT: CURRENT PROGNOSIS (SHORT RUN) FOR THE GUYANESE ECONOMY APPEARS PESSIMISTIC. AND, IT IS. IN TERMS OF THE SURVIVAL OF THE GOG, THINGS MAY NOT BE THAT BAD. INCREASED BORROWINGS (AND PERHAPS SOME FOREIGN ASSISTANCE) IS USUALLY ENOUGH TO MUDDLE THROUGH. FROM THE STANDPOINT OF ECONOMIC PROGRESS, HOWEVER, GUYANA IS AT A STANDSTILL. POLITICS IS REPLACING ECONOMICS. AND, THE CONSEQUENCES ARE, IN TURN, INTERPRETED POLITICALLY.
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